MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BANKING, ACCOUNTING & FINANCE

THIRD YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 301: ADVANCED FINANCIAL ACCOUNTING I

DATE: **TIME:**

INSTRUCTIONS:

i. Answer question one and any other two questions.
ii. Marks allocated for each question are shown at the end of the question.
iii. Show your working where necessary.

QUESTION ONE (30 MARKS): COMPULSORY

a) Briefly explain FOUR limitations of Historical Cost Accounting. (8 marks)

b) Explain the following terms as used in the law of succession

i. Testatrix
ii. Partial intestacy
iii. Codicil
iv. Presumption of survivorship (8 marks)

c) ABC Ltd acquired a plant at a cost of 3.0 million on January 2013.The plant is depreciated over its useful life of five years. Capital allowances on the plant were asfollows.

Year	Capital Allowance (%)	Tax Rate (%)
2013	40	30
2014	25	25
2015	25	35

2016	10	40
2017	-	20

Required: Calculate the current tax for each year (10 marks)

d) Highlight FOUR circumstances under which a partnership business may be dissolved.

(4 marks)

QUESTION TWO (20 MARKS)

Ali, Baba and Cheche were in partnership sharing profits and losses in the ratio of 2:2:1 respectively. Following serious disagreements, the partners decided to dissolve the partnership. The proceeds from sale of assets were to be paid to the individual partners after all expenses and liabilities had been paid. The balance sheet as at 30 September 2017 when the partners made the decision to dissolve the partnership was as follows

	Sh.000	Sh.000
Assets:		
Freehold Property		3,000
Equipment		1,500
		4,500
Current assets:		
Inventory	800	
Accounts receivable	450	
Cash at bank	210	1460
Total assets		5960
Capital and Liabilities:		
Capital accounts: Ali		3,900
Baba		1,300
Cheche		200
		5,400
Current accounts: Ali	70	
Baba	(30)	
Cheche	20	60
		5,460
Non-Current liability:		
Loan from Baba		200
Current liabilities:		
Accounts payable		300
Total capital and liabilities		**5,960**

The partners were not able to find a buyer for the entire business. An auctioneer appointed to assist in the realization of the assets reported the following cash collections.

Date	**Cash collected**
	Sh.
10 October 2017	60,000
31 October 2017	90,000
11 November 2017	130,000
31 January 2018	3,150,000
28 February 2018	890,000

The partners agreed to share any cash available immediately after all the liabilities including the auctioneer's fees of sh. 80,000 were paid the accounts payable were paid less discounts of sh.10, 000. The rule of Garner vs Murray was applicable where relevant.

Required:

a) Briefly explain the rule of Garner vs Murray (2 marks)

b) Statement showing how cash realized would be distributed to the partners (10 marks)

c) Realisation account, cash at bank account and capital accounts to close off the books of the partnership. (8 marks)

QUESTION THREE (20 MARKS)

The approved estimates and actual expenditure details for Vote E45 of Ministry ABC for the financial year 2016/2017 were as follows:

	Approved Estimate	Actual Expenditure
	Sh. 000	Sh. 000
000 Personal emoluments	246,560	195,040
050 House allowances	39,100	28,520
080 Passages and leave expenses	8,280	1,334
100 Transport operating expenses	32,200	27,186
110 Travelling and accommodation	2,668	3,312
120 Postal and Telegram expenses	9,200	6,624
190 Miscellaneous expenses	34,960	33,764
196 Training expenses	11,960	13,476
230 Purchase of equipment	42,000	79,600
620 Appropriations- In Aid	10,000	11,120(realized)

The ministry made four equal withdrawals from the exchequer in July 2016, October 2016, January 2017 and May 2017. In total, the ministry had withdrawn sh.400, 000,000 by the end of the 2016/2017 financial year. Supplementary estimates authorized during the 2016/2017 financial year were as follows

	Sh.000
000 Personal emoluments	12,000(reduction)
196 Training expenses	2,000(increase)
620 Appropriation-In Aid	8,000(increase)

Required:

a) Appropriation account for the year ended 30 June 2017 (6 marks)
b) General Account of Vote for the year ended 30 June 2017 (4 marks)
c) Exchequer account for the year ended 30 June 2017 (4 marks)
d) Paymaster General (PMG) account for the year ended 30 June 2017 (4 marks)
e) Statement of assets and liabilities as at 30 June 2017 (2 marks)

QUESTION FOUR (20 MARKS)

a) Kifo died on 12 March 2017, and by his will made in 2015 bequeathed the following gifts:

i. To Linda my daughter sh.100, 000
ii. To Elisha my son, my house in Thome
iii. To Lita my wife sh.500, 000 on condition that she does not marry again.
iv. To Tumbo my friend Sh. 250,000 from my fixed deposit account in Faida bank

The executor established that:

- Kifo gave Linda sh. 60,000 in 2016 to enable her establish a salon.
- The contract for the purchase of the house in Thome was completed in June 2018.
- Lita is engaged to Kisogo and their wedding is scheduled for 31 December 2018.
- Tumbo died on 11 March 2017 on hearing that his best friend Kifo was seriously sick and had been admitted in the ICU.

Required:

Explain how the executor should deal with each bequest. (8 marks)

b) Explain SIX circumstances under which a legacy may fail. (12 marks)

QUESTION FIVE (20 MARKS)

a) Lami Limited had a deferred tax liability as at 1 May 2017 of sh. 100 million. For the purposes of preparing the financial statements for the year ended 30 April 2018, the following additional information is available.

- Property, plant and equipment have a carrying amount of sh.1, 200 million and a tax base of sh. 1000 million. Some land and buildings were revalued upwards by sh. 50 million during the year ended 30 April 2018.
- Intangible assets consisting of trade licenses being amortized over five (5) years had a carrying amount of sh. 60 million. This was allowed for tax purposes in full two years ago
- The company has available for sale financial assets with a carrying amount of sh. 20 million and financial assets at fair value through profit and loss of sh. 10 million. Both financial assets reported losses in fair value of sh. 2 million each as at 30 April 2018.
- Inventory is shown at the lower of cost and net realizable value. The cost is sh. 800 million while the net realizable value is sh. 780 million
- Receivables had a carrying amount of sh. 500 million after making an allowance for doubtful debt of sh. 20 million and an exchange gain of sh. 10 million (unrealized). Both the allowance and exchange gain are not allowed for tax purposes.
- Trade and other payables are stated at sh. 200 million after making a provision for discount of sh. 10 million
- Assume a tax rate of 30%.

Required:

i) Compute the relevant temporary differences (8 marks)

ii) Show the journal entry to record changes in the deferred tax liability (2 marks)

b) Explain the following terms:

i) Originating timing difference (2 marks)

ii) Reversing timing difference (2 marks)

iii) Deferred tax (2 marks)

iv) Current tax (2 marks)

v) Tax base (2 marks)